

## **MEMORANDUM REPORT**

**To: Friends of the Southwest Museum**

**From: ConsultEcon, Inc.**

**Re: Review of Southwest Museum Rehabilitation Evaluations**

**Date: March 11, 2005**

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This memo is presented in the following sections:

1. Executive Summary
2. Items reviewed as a part of this evaluation
3. Review and background to current situation
4. General Review of Southwest Museum Rehabilitation Report
5. Specific Review of the Financial Analysis
6. General Conclusions

### **1. EXECUTIVE SUMMARY**

- ◆ ConsultEcon, Inc. (CEI) was retained by The Friends of the Southwest Museum to review the report prepared by a group of consultants for the Autry National Center on the rehabilitation of the Southwest Museum.
- ◆ ConsultEcon is a firm that specializes in economic and management consulting for museums.
- ◆ As noted in Section 2 of this memorandum, CEI reviewed the basic Rehabilitation Report as well as other materials regarding the history and planning for the Southwest Museum, as presented in the body of this memorandum report.
- ◆ CEI's review included a visit to both the Southwest Museum and the Museum of the American West.
- ◆ CEI's review also included a summary review of approach, methodology and conclusions from the Rehabilitation Report.
- ◆ The general findings from this review are as follows:

The Rehabilitation Report prepared by the consultant team is focused primarily on technical rehabilitation issues related to the Southwest Museum. The alternative use scenarios appear to have been developed as if the Southwest Museum were a stand-alone facility and not integrated into the Autry Center per the 2003 Agreement and Plan of Merger. This results in a higher staff profile and operating costs for the Museum as outlined in the financial analysis section of the Rehabilitation Report. The operating attendance and revenue assumptions shown in the financial analysis section of the Rehabilitation Report are extremely conservative. The net result is that the alternatives shown in the report appear to be performing poorly. Even with these considerations, the Rehabilitation Report concludes that the financial performance of the Southwest Museum as projected in the alternatives falls within the typical range of earned revenue for Museums. The authors of the report basically indicate that reuse is feasible if funds can be raised to cover capital and operating support, which is true for virtually all museums. The statement that the project is not “economically feasible” is a conclusion that is only made in the Autry Center’s cover letter to the Rehabilitation Report, but not directly supported by the work in the Rehabilitation Report.

## **2. ITEMS REVIEWED AS A PART OF THIS EVALUATION**

In preparing this evaluation we reviewed the following documents:

- ◆ *Southwest Museum Rehabilitation Study, Phase I Planning*; Levin Associates, et al, n.d. – architectural drawings in report are dated January 2004.
- ◆ *Southwest Museum Annual Reports, 1991-2001*, except for FY’00
- ◆ *Strategic Long Range Planning Alternatives for the Southwest Museum (Draft)*, Harrison Price Company, April 1992
- ◆ Official Museum Directories, 1996-2005
- ◆ Agreement and Plan of Merger, March 4, 2003
- ◆ Lexis-Nexis press search
- ◆ Guidestar 990/Financial Evaluations
- ◆ Belin Report (draft) n.d.
- ◆ ConsultEcon, Inc. project reference files

This was supplemented by a visit to both the Museum of the West and the Southwest Museum.

### **3. REVIEW AND BACKGROUND OF CURRENT SITUATION**

ConsultEcon's review of background materials and a visit to the Southwest Museum indicate that the Museum has been in relative decline for the better part of the last two decades. A review of annual reports, IRS form 990's, and prior consultant reports such as the Harrison Price study of 1992 reveal an organization that has been dealing with a host of issues and various attempts to bring itself into a profile as a contemporary museum for a long period of time. Certainly as early as the Harrison Price study, the issues of obsolescence and declining attendance, or more accurately, decline in market share were evident, given increases in resident and visitor populations in the Los Angeles Market during the 20<sup>th</sup> Century. The Price study identified the key issues of lack of market performance, physical plant obsolescence, difficult site constraints and inability to showcase (because of limited gallery space) what is thought to be one of the best collections of Native American art and artifacts in North America if not the world. On the other hand the current site and historic campus offer an incomparable location in terms of drama, beauty, and centrality to a large market, including accessibility to both the Los Angeles CBD and Pasadena.

Data in **Table 1** show a review of roughly the last decade of Southwest Museum annual reports, and the ups and downs of its operations. A review of 990's shows that until the last few years, the Museum was more or less holding its own on an operating budget basis. For the period between 1993 and 2000, on average, the Museum earned 46 percent of its income through retail sales, events and membership fees, and about 19 percent through investment earnings, with the remainder from donations, grants and gifts. It was only in the last few years before the merger that the financial bottom seems to have fallen out, with only 26 percent earned income.

Table 1  
Review of Southwest Museum Annual Reports

Year	Annual Attendance (School Groups)	Membership	Museum Store Gross Sales	Operating Deficit <sup>a</sup>
1991-92 <sup>1</sup>	71,762 (19,430)	3,156	\$502,973	
1992-93 <sup>2</sup>	74,860 (36,000)	2,200	\$423,587	-\$343,809 <sup>3</sup>
1993-94 <sup>4</sup>	58,998 (NS)	2,560	\$391,284	-\$363,196 <sup>3</sup>
1994-95 <sup>5</sup>	55,709 (43,000) <sup>6</sup>	NS	\$382,787	-\$143,098 <sup>3</sup>
1995-96 <sup>7</sup>	NS (45,000)	2,385	\$351,882	+\$41,000 <sup>3</sup>
1996-97 <sup>8</sup>	63,211 (45,000)	2,213	\$323,850	Positive
1997-98 <sup>9</sup>	NS (45,000)	2,312	\$331,773	Positive
1998-99 <sup>10</sup>	NS (45,000)	2,525	\$979,965 <sup>11</sup>	+\$31,985
1999-00	NR	NR	NR	NR
2000-01 <sup>12</sup>	NS (35,000)	1,406	\$341,539	Negative

Source: Southwest Museum annual reports and ConsultEcon, Inc.

NR = No Report reviewed

NS = Not Shown in annual report.

\* As reported in Annual Report / Not from Audited reports.

- <sup>1</sup> Best year in sales for store/economic recession in Southern California/long-range planning suggests relocating to new site/\$117,2000 admissions revenue.
- <sup>2</sup> Museum issues RFP for new location/\$8,500 attend 1992 Intertribal Marketplace/HAGPRA Inventory.
- <sup>3</sup> Reported in 95-96 annual report
- <sup>4</sup> Lost PR Director/bad economic conditions – all L.A. Museums dropped / earthquake/ demand for school tours greater than capacity to host them/Grant for offsite textile facility/net proceeds from Annual Gala \$78,000/Accepted bid from City of LA to help the Museum stay in present location/also possibility of new Museum satellites in Santa Barbara, Palm Desert.
- <sup>5</sup> Greatly reduced development staff/no membership campaign/ off-site conservation facility / notes that while Museum has good endowment with cash reserves, financial problems are on the horizon.
- <sup>6</sup> Report “program participation” for school groups unclear if this is the same as “attendance”
- <sup>7</sup> Reopened entrance tunnel/ strengthened Board/operating surplus/ significant gifts received/ discussion of second site for exhibits, better accessibility.
- <sup>8</sup> Planning for second exhibition facility at May Co. building on Wilshire / Board strengthened / LACMA move on second site.
- <sup>9</sup> Stop reporting attendance in annual report.
- <sup>10</sup> 200,000 visit LACMA gallery in first five months of 1999, thanks to spillover from Van Gogh show / also good retail sales. Galleries are free / Museum operates in black for fourth year in a row / annual Gala grossed over \$100,000.
- <sup>11</sup> Two store sites: Mt. Washington and LACMA. Gift shop sales at LACMA exceeded \$500,000. Museum Store sales also include consignment income.
- <sup>12</sup> Note – first year in six that Museum operated in red/master plan for current site is started / raised \$3 million in capital campaign – best ever / lease with LACMA ends.

Articles that appeared in 2002 in the *New York Times* and the *Los Angeles Times* highlighted this:

“The long-troubled Southwest Museum, the country’s largest and most important collection of Indian artifacts outside government hands, is suddenly facing new uncertainties that could accelerate a steady, if little understood, deterioration of its finances.

A close look at the Museum’s public financial records and internal documents provided by people who contend that the museum has been mismanaged for years shows that its finances and even its collection appear to be in perilous condition.

The problems include financial losses, a shrinking endowment, plummeting attendance and inadequate, potentially dangerous, storage facilities for a highly regarded collection of 350,000 Indian artifacts, most of which sit in obscurity. The collection is largely stored in rooms with outdated electrical wiring, no sprinkler system, no environmental controls, and little protection from earthquakes, a consultant’s report says.....

.....Mr. King insisted that a burst of fund-raising over the last year had helped counter some of the Southwest’s problems, and he said some of the financial data were misleading. But the museum’s records show signs of trouble.

For instance, internal documents appear to contradict the museum’s public reports of annual attendance. The Southwest has long said it has 75,000 visitors a year at its small, out-of-the-way location in the Mount Washington neighborhood.

But internal records show that attendance has been plummeting, to 13,800 in the year that ended June 30, 2000, from 22,000 in the year that ended June 30, 1996. Mr. King said the figures had been rising more recently. He acknowledged that the museum receives fewer than the 45,000 visits by children on school tours reported each year.

In the fiscal year that ended June 30, 2000, the museum reported a loss of \$1.4 million, after a \$456,000 loss the previous year. For the fiscal year that ended June 30, 2001, the museum reported a surplus of \$727,000.

Mr. King said the museum’s net assets were a better reflection of its health. But even that has declined, to \$6.9 million last June 30 from \$8.1 million on June 30, 1998.

The endowment has withered to \$3.4 million this year from \$6.4 million in 1994, according to internal reports. Year by year, the museum has been using money from the endowment for operations, its tax returns and other documents indicate...” -- *New York Times*, May 26, 2002

“....The Southwest Museum, founded in 1907, has for the last decade suffered through a series of leadership crises. In 1993, former Director Patrick Houlihan was convicted of removing about 20 valuable baskets, tapestries and paintings from the museum’s renowned Native American collection and secretly selling or trading them.

The Southwest’s current need for financial help was made clear by a report commissioned a year ago. The confidential report, a draft of which was obtained by The Times, was undertaken by Daniel Belin, an attorney and nonprofit management consultant. It found that the museum’s trustees were contributing too little money, paying too little attention to finances and consequently squandering their credibility among other potential donors.

The report also sounded out alliance possibilities with representatives of several other cultural organizations – including the Autry, the casino-rich Pechanga Indian Tribe in Riverside County, the Heard Museum in Phoenix and the Smithsonian Institution’s National Museum of the American Indian in Washington. Except for the Autry and the Pechangas, most expressed doubts about the cost and logistics of preserving the collection, its current site and the institution’s independence.

The Southwest board “had become more a collector’s club than a museum board,” said a source familiar with the museum’s internal operations who requested anonymity. In the last two years, more than a dozen board members have left the Southwest Museum.

The Southwest Museum’s King acknowledged that his board’s fund-raising had lagged in recent years, but he said giving accelerated dramatically in late 2001 when, faced with financial calamity, board members gave or raised \$1.1 million as part of a campaign to meet a \$250,000 matching grant from the Ahmanson Foundation.....” – *The Los Angeles Times, December 11, 2002.*

After the initial agreement with the Los Angeles County Museum of Art (LACMA)<sup>1</sup> and its termination in December 2000, the last annual report reviewed in preparing this report indicated that the museum was still in active discussions with other organizations with which they could collaborate on a new museum.<sup>2</sup> Indeed, the Price report had recommended in 1992, either an

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<sup>1</sup> In spring of 1998, the Museum leased 8,200 square feet in the LACMA May building for a three-year term. The Southwest Museum hosted at least one traveling exhibit (with a \$10 adult fee), as well as Museum-sponsored shows that appear to have been free. In December 2000, the Southwest Museum indicated they would be vacating this space and concentrating on a 5,000-square-foot expansion at the Mt. Washington site. Press reports indicated that the Sierra Club opposed this expansion.

<sup>2</sup> After on-again/off-again discussions over three years with the Autry National Center and the Pechanga Board of the Luiseno Indians, the merger agreement was made with Autry.

upgrade of the current Museum's campus, or a relocation of the Museum to a location such as the Autry/Zoo site, Exposition Park or the Wilshire Boulevard museum complex area. At some point the Museum entered into an agreement with the Autry National Center of the American West, and on March 4, 2003 an Agreement and Plan of Merger was executed between the Autry and the Southwest Museum. The effect of this agreement was to merge the Southwest Museum with a new entity -- The Autry National Center. Some of the key parts of this merger document for the purposes of this review are as follows:

**“10. Covenants Pending the Merger Effective Date**

**....10(c) Transition.** Southwest and Autry shall collectively take steps to integrate fundraising, marketing, grant applications, organization, and to facilitate the Center's expansion and appropriate utilization of the Southwest and Autry site.....

**12. Structure and Governance of the Center**

**12(a)** As provided for in this Agreement, the Center shall be formally created on the Effective Date upon the amendment of the articles of incorporation of the Autry, the amendment and restatement of the bylaws of the Autry, the appointment of the individuals listed on Exhibit D as the directs of the Center for the terms listed thereon, and the Merger.

**12(b) Divisions.** The Center shall include three independently operated, curatorially or scholarly driven entities: *The Autry Museum of Western Heritage*, *The Southwest Museum*, and *The Institute for the Study of the American West*. Each will be led by its own director, who will manage a distinct curatorial and research staff in order to maintain the identity and integrity of each entity as a part of the Center. Each entity, in coordination with the others and the Center, and within the overarching mission and capacity of the Center, will develop, submit for approval by the Center and manage its own budget, as well as its own exhibitions, programs, and collection initiatives and responsibilities.....

**13. Post-Merger Obligations. Each of the parties hereto covenants that:....**

**13(f) Southwest Museum Operations.** Subject to the provisions of Section 12(b) above, under the leadership of its own director and curators, the identity and integrity of Southwest Museum will be maintained as part of the Center and the Southwest staff will establish their museum's interpretive agenda creating permanent and temporary exhibitions for presentation in its galleries, as well as working with the Center's education staff to develop ancillary programs and outreach to students and families. It is anticipated that the collections will be

used as the basis for pioneering research that results in important and substantial exhibitions, publications, and public programs....

**13(h) Fundraising.** The Center shall launch an endowment and capital campaign in 2004 with a goal of raising at least \$100,000,000, subject to the studies to be undertaken pursuant to the Master Plan referred to in Section 13(i) below.

**13(i) Master Plan.** The Center shall undertake a thorough analysis and collaborative planning process regarding the combination of the Autry and Southwest to be completed no later than September 30, 2003 (the “Master Plan”) which shall include, among other items: (i) facility reports which will analyze structure of facilities of Southwest and Autry existing as of the date hereof; and (ii) plans relating to capital and endowment campaigns.

**13(j) Location.**

(i) The parties shall use all efforts to build a new facility adjacent to the existing Autry National Center to expand exhibition space and audience for programs relating to the Southwest.

(ii) It is the intention of the parties that, until and unless the Master Plan dictates otherwise, the Southwest Site shall be the location for all aspects of The Southwest Museum, including but not limited to, exhibition and education programs, storage of Southwest’s collection and the Braun Library.

(iii) If the Master Plan determines that structural modifications or construction is necessary or appropriate at the Southwest Site, all reasonable efforts shall be taken to keep the Southwest Site open, and to protect the public’s safety and visitors’ comfort during such time.

(iv) Regardless of the outcome of the Master Plan, the parties shall use all reasonable efforts to pay full respect to the historical significance of all structures at the Southwest Site, and consult with community groups and local and state governments, with the hope to restore the site to its original glory, recognizing its value to the greater Los Angeles community.....”

*The Los Angeles Times* reported the story in its March 14, 2003 edition as follows:

“... The deal also charts plans to add 20,000 square feet of exhibition space and 20,000 square feet of viewable storage space at the Autry site in Griffith Park to make room for parts of Southwest’s vast collection of art and artifacts....

.....In disclosing their decision Thursday, Autry leaders stopped short of making guarantees about the fate of the Southwest’s longtime home on Mount



Washington. But the facility will remain open for the foreseeable future, and in meetings and correspondence with neighborhood activists, they have pledged their best efforts not only to preserve the historic buildings there but keep them open to the public, ideally as a venue for temporary exhibitions.

To cover costs of the merger, Autry officials say they plan to raise \$100 million over the next five years, including \$38 million to boost the center's endowment and an estimated \$15 million to restore and renovate the Southwest buildings....." – *The Los Angeles Times, March 14, 2003*

As a result of this agreement, the Autry National Center undertook studies of the Southwest Museum to determine both its physical state as well as its potential economic future at its current site. These studies were prepared by a consulting team that included various experts in historic rehabilitation, planning, engineering, architecture and financial analysis. The results of the Rehabilitation technical studies indicated that:

### **"CONCLUSION**

The Southwest Museum has great value as an institution, a historically significant building and an emblematic artifact of the formation of Los Angeles in the early twentieth century. The current condition of the museum and its infrastructure, however, does not meet current museum standards. This signifies that the building is not suitable for safely maintaining and displaying the formidable artifact collection. Potential damage from fire, climatic fluctuations, pests and other sources is a present danger. Moreover, the use of unsuitable spaces for densely packed storage leaves the great majority of pieces unavailable for public viewing, and turns unique gallery space such as Torrance Tower into warehouses. The current exhibition spaces are underutilized and poorly lit; the artifacts are not shown in their best light.

In addition, the historic building is in need of some urgent maintenance/preservation procedures in order to prevent deterioration.

The collection will undergo a general conservation effort and much of it will be moved to a new, state of the art, open storage facility at the Autry National Center Griffith Park Campus within the next few years. This report has analyzed what would be required to prepare the Southwest for continued museum use, with its envelope and infrastructure meeting museum standards.

It has been shown by the respective consultants who collaborated on this report that the Southwest Museum building can achieve these standards (Option A) and further, with some additional investment it can provide greatly enhanced service to the community, attract more visitors, and earn more income (Option B).

However, the cost for these changes is considerable; both in terms of capital outlay and increased operating expenses. It must be kept in mind that, as a rule, museums do not earn enough to pay their bills; the average income accounting for 30 to 50% of operating expenses. The additional funds are generally made up by gifts and grants. While the financial performance of the Southwest Museum, today, and as projected for Options A and B of this study, falls within the range of earned revenue to operating expenses, the crucial question is whether fundraising and government grants can make up the remainder of operating expenses. Further, is it possible to raise the capital required for the building and infrastructure upgrades?

This study provides the information needed to guide a rehabilitation of the Southwest Museum.”<sup>3</sup>

Noteworthy in these findings is that the consultants indicate the Southwest Museum could operate within industry norms regarding earned income for a museum of this type.

Each of the technical studies in this report, with the exception of the Financial Analysis, also carried their own conclusions.

The cover letter from the President and CEO of the Autry National Center, however, indicated that the study had shown that it was not *economically feasible* for the museum to be operated “exclusively as a museum,” but that it was the intent of the Autry National Center to work with the community on a plan for the Southwest Museum and that the buildings had been placed on the National Register of Historic Places.

#### **4. GENERAL REVIEW OF SOUTHWEST MUSEUM REHABILITATION REPORT**

The overall report appears to be a good evaluation of the physical issues involved with rehabilitation of the Southwest Museum campus. In the analysis, the existing Museum and two options for expansion are analyzed. There are, however, some shortcomings in the report that bear noting and that may impact on the financial analysis. These include:

- ◆ There is no way to check or replicate the “numbers” work shown in the report.
- ◆ No detailed cost estimate or supporting calculations (shown in the report). The cost estimation references a “detailed Feasibility Cost Study Plan,” from which work is extracted.

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<sup>3</sup> Source: *Southwest Museum Rehabilitation Study*.

- ◆ There are three different physical sizes given for each of the existing Museum and Options A and B in the report. Both calculation tables on p. 178 and 179 of the cost estimate show the gross area as 38,203 square feet for both Option A and Option B, but there is no way to check if this is just a “typo.”
- ◆ The summary of the square footage of the alternative projects is not internally consistent. Data in Table V-5 (p.19) where gross square footage and exhibit square footage are given on the pro forma summary table do not correspond to the summary given on p. 188-189.
- ◆ The cost table on p. 17 shows building costs per sq. ft. that don’t coincide with the building totals shown in Table V-5 (for Option A, 38,204 square feet vs. 42,453 and for Option B, 42,627 square feet vs. 52,092).
- ◆ A note on the architectural plans- no scale given in the drawings.
- ◆ For the Financial Analysis, it is unclear how factors are related to each other. For instance, is “Facilities and Operations” expenses based on square footage? Or staff? Or...?
- ◆ ConsultEcon would not characterize the Options shown as “plans.” The “plans” that are presented are very general, and not supported by a “program statement,” that is, what is the space plan that is being served in the “plan”? Where there is a discussion in the financial report of the components of each plan option, it is unclear if this represents the consultant’s suggested plans or the Autry’s proposed plans.
- ◆ Given the Merger Plan, there should be an overall Autry National Center program statement to inform the program for the Southwest Museum. For instance, it is clear that the current facilities are inadequate to show the collection, and the site has limitations. Options A and B therefore, from a physical program perspective, seem indistinguishable and not useful for a comparative evaluation.
- ◆ Alternatives as presented seem to be “level of rehabilitation” alternatives, not alternatives related to mission. For instance, to make the Museum more feasible, we would see significantly more “galleries” and less back-of-the-house and “community” space in Option B.
- ◆ The basic differences between Option A (the rehabilitation option) and Option B (the rehabilitation and expansion option) appear to be in the cost estimate (\$283.48 per square foot in “A” vs. \$329.46 per square foot in “B” on p. 17), and the provision for an outdoor “plaza” in Option B, which artificially boosts the square foot size of Option B.

## **5. SPECIFIC REVIEW OF THE FINANCIAL ANALYSIS**

The following reviews the economic section of the Rehabilitation Study that was prepared by Economics Research Associates (ERA).

- ◆ The ERA study is a fairly cursory review of the two options with programs apparently prepared by the planners. The current “baseline” operating costs are utilized for Option A, the rehabilitation alternative, while a new set of operating cost numbers are used for

Option B, which is rehabilitation and “expansion” option. Given the lack of real alternatives in Options A and B (i.e., with the exception of the “plaza” the space utilization for both options is very similar), the ERA report takes on an “academic” exercise quality.

- ◆ It is counter-intuitive to staff up the Museum as in Option B if you can’t deliver the product (i.e., galleries). No rational museum operator would do this.
- ◆ The assumptions used in the operating (financial) evaluation are generally not stated or supported in any detail, or backed up by programmatic descriptions.
- ◆ The evaluation in the market and comparables section is done in a cursory way. The comparables section of the report (pp199-200) relies on information primarily collected from the Official Museum Directory (which is often of dubious reliability or currency). (Note: compare this with the 1992 Price Study to see the level of detail that is preferable in this type of comparable review). The selection of museums to be compared seem somewhat arbitrary. It might have been better to select a few museums that have a program similarity to the Southwest Museum such as the Heard Museum in Phoenix(which currently runs two sites in the Phoenix metro area), the Eiteljorg Museum in Indianapolis, the Gilcrease Museum in Tulsa, and the Burke Museum in Seattle. There is no date on the study so it is hard to know how current the data are that are used as a baseline. It is also not clear whether the data used in the evaluation are on a fiscal year or calendar year basis.

The report notes that current data used were from the Southwest Museum and that operating standards set (p. # 17) by the Autry National Center were also used. It is unclear whether this “Autry National Center standard” includes items such as wage rates for categories of employees, admission fees, membership categories, revenue and operations costs splits between the three Autry National Center components, etc. Also, there is limited indication of any synergy with Autry.

- ◆ The operating expenses for Option B seem well out of proportion to the description of the program. The size of the project increases to 52,092 sq. ft. (most of it in the new outdoor “plaza”), or an increase of 24 percent, while the operating budget goes from \$1,921,000 to \$3,488,000, or an increase of 82 percent. The great majority of the increase is related to an increase of staff, particularly in the curatorial, visitor support and security areas. Because no staffing plans are given with appropriate wage and benefit information it is difficult to understand why staffing costs have escalated so dramatically (except based on the overall number of staff, going from 23 in Option A to 41 in Option B). Also in the Agreement and Plan of Merger, many of the positions such as marketing, membership, development that were added in Option B (except curatorial) were to be in the overall centers management structure presumably so that there would be efficiencies in these categories. It is also unclear why the security staff more than doubles in Option B. Therefore, to allocate them fully to the Southwest Museum seems to place an unwarranted burden on the evaluation of financial feasibility. A saving in staff costs is what museum consolidation is generally about. In other words, the pro forma in both Options A and B treats the Southwest Museum as a stand-alone museum, not as a part of the larger Autry entity.

- ◆ There is no sensitivity testing of assumptions. The market support shown for Option B, for instance, by slightly changing the penetration rates in Table V-1 (p.213), could result in attendance closer to 90,000-100,000 annual visitors. Evidence from comparables suggests that a well planned museum that addresses the shortcomings of the current Museum could do as well as the other Native American museums, which achieve attendance higher than this in much smaller markets.
- ◆ It is difficult to evaluate the financial opportunity of the Southwest Museum without reference to the Master Plan for the total Autry National Center operations. The Agreement and Plan of Merger indicates that this plan was to be completed no later than Sept 30, 2003. If this plan were completed, the assumptions made in that plan would be relevant to the discussion regarding the Southwest Museum.
- ◆ Not sure where ERA's industry benchmarks come from, shown on p.19. They actually don't help a conclusion that the Museum is not workable, because the options shown would seem to fall within a reasonable range of the midpoint of the benchmarks.

### **Conclusions on Review of Economic Feasibility Study**

The ERA attendance estimates for the renewed museum seem extremely conservative, particularly given the potential for school group attendance. A more realistic attendance estimate for a renewed Museum might be 95,000 annual visitors.<sup>4</sup> In summary, a reasonable alternative analysis would be (generally using ERA's economic factors) an Option C, as follows (shown against ERA's Option B pro forma, condensed):

This new Option C assumes more gallery space, a higher attendance, consistent with the collection and assuming the redevelopment of the Museum; higher per capita admissions consistent with the current \$7.50 adult ticket price; higher revenue from other sources such as rentals, etc. and a lower operating cost than assumed by ERA. This lower operating cost is based on fewer employees at the Museum than shown in Option B, as well as lower advertising and curatorial costs than shown in the ERA report.

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<sup>4</sup> Rounded up, based on a market penetration rate of .55 for resident market and .11 for tourist market, per baseline resident and tourist figures in Table V-1 on p. 213 of the Rehabilitation Report.

	<b>Report Option B</b>	<b>ConsultEcon Option C</b>
<i>Attendance</i>	<i>64,000</i>	<i>95,000</i>
<b>Operating Revenues:</b>		
Admissions <sup>1/</sup>	\$348,140	\$573,800
Per Capita Admissions <sup>2/</sup>	\$5.44	\$6.04
Gift Shop	\$644,725	\$956,650
Per Capita Gift Shop (Gross)	\$10.07	\$10.07
Other	\$318,400	\$617,500
Per Capita Other	\$4.98	\$6.50
Total Earned Revenue:	\$1,311,000	\$2,147,950
<b>Operating Expenses:</b>		
Operating Expenses	\$3,813,000	\$3,173,020
Per Square Foot Operating Expenses	\$73.20	\$60.91
Net Operating Income:	<b>(\$2,502,000)</b>	<b>(\$1,025,070)</b>
Percent Earned Income:	34.4%	67.7%

1/ Includes admissions, school, membership income.

2/ \$5.44 per capita on \$6.75 adult ticket price in ERA report results in \$6.04 at \$7.50 adult ticket price.

## **6. GENERAL CONCLUSIONS**

The statement that the project is not “economically feasible” is an assertion that is made in the Autry National Center’s cover letter to the report, but is not necessarily supported by ERA’s work, and even less so with a revised analysis such as ConsultEcon’s Option C. The test of economic feasibility in the museum world is much more subjective than it is in the business world, where a clear return on investment (ROI) is warranted. Indeed, the “non-profit” status of museums is the tax code’s way of rewarding the public interest nature of museums. *The test of “economic feasibility” is at the discretion of the Museum board.* (Note: the Autry seems to run at about 25 percent earned income.) The Rehabilitation Report itself recognizes this in its Conclusion (p.20), and the current ERA numbers, even as conservative as they are, still fall within this 30 to 50 percent of earned income level. The author of the Rehabilitation Report

conclusion seems to stretch to come to the conclusion that it *might not* work! The only question seems to be whether fundraising can make up any difference in operating costs, which of course is the job for 99 percent of museums and their boards. This is where the Autry National Center could (or should) make a big difference with its large endowment and fundraising capability. It may also be why the report's cover letter did not cite specific evidence from the Rehabilitation Report to support the conclusion that the Museum is not feasible.

Other aspects of "economic feasibility" relate to the: a) location; b) accessibility, parking; c) market size; and d) project critical mass. Our review suggests the following about these factors:

- ◆ **Location** – Being so close to downtown Los Angeles and Pasadena should translate better into a solid market for the casual visitor, even though, as noted by many commentators, it appears at first look as if the location is not an optimal site in the sense of being clustered with other "attractions". Because of the re-emergence of downtown LA, the Southwest Museum is actually one of the closest museums to the downtown market, and has increased ease and accessibility via Metro Gold Line. The same is true of the Pasadena visitor market, which in essence this location is part of as well due to its proximity, cultural link to the Arroyo Seco and now linked with Metro. Within a 10 minute link via Metro, a visitor can get from either downtown LA or downtown Pasadena to the Southwest Museum. That's an economic resource unavailable to almost every museum/destination in Los Angeles.
- ◆ **Accessibility and Parking** – The location is part of the larger Arroyo Seco National Scenic Byway and is served by the LA Metro, with a "Southwest Museum" station. Accessibility to the site is excellent. Parking may be constricted on busy days, but the plan report suggests that a rework of the current parking lot alone could increase capacity by 60 percent (p.109), which would be over 100 spaces. Not including employee parking, this could support up to 125,000 annual attendees (design day of 500 attendees/85% auto = 425 attendees/2.0 per car/40% on-site at peak = 85 spaces). Since many of these visitors would be school children, the parking infrastructure could support even higher overall attendance. In addition, there is the possibility to create two levels of parking, which would further increase capacity.
- ◆ **Market Size** – The market resident and visitor size is one of the largest in the U.S. As noted in the rehabilitation study, this market is 9,196,905 residents (0-25 miles, 2006) and 24.6 million overnight visitors in 2002. This could easily support higher attendance levels than projected in the Rehabilitation Report, with an appropriate Museum renovation and operating plan.
- ◆ **Project Critical Mass** – In order for the Museum to operate as a museum, there would need to be a more creative physical plan than that presented in the Rehabilitation Plan. This could capitalize on the merger with Autry, which the current plans do not.

## **CONCLUSION**

The Rehabilitation Report prepared by the consultant team is focused primarily on technical rehabilitation issues related to the Southwest Museum. The alternative use scenarios appear to have been developed as if the Southwest Museum were a stand-alone facility and not integrated into the Autry Center per the 2003 Agreement and Plan of Merger. This results in a higher staff profile and operating costs for the Museum as outlined in the financial analysis section of the Rehabilitation Report. The operating attendance and revenue assumptions shown in the financial analysis section of the Rehabilitation Report are extremely conservative. The net result is that the alternatives shown in the report appear to be performing poorly. Even with these considerations, the Rehabilitation Report concludes that the financial performance of the Southwest Museum as projected in the alternatives falls within the typical range of earned revenue for Museums. The authors of the report basically indicate that reuse is feasible if funds can be raised to cover capital and operating support, which is true for virtually all museums. The statement that the project is not “economically feasible” is an assertion that is only made in the Autry Center’s cover letter to the Rehabilitation Report, but not supported by the work in the Rehabilitation Report.